

MORE GROWTH, LESS GRIDLOCK

TOWARD A NEW TRADE AGENDA

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EXECUTIVE SUMMARY

Trade policy has made little progress over the last decade. Since 2000, the U.S. has reached no major multilateral trade agreement and has left its own trade regime static. The WTO's Doha Round has been stalled for years, and in the Bush era trade debates devolved into a series of emotional arguments over a free-trade agreement program that touches only a small fraction of America's trade and has had little impact on growth, employment or national security.

President Obama has a chance for a fresh start, and in most ways his global-economy policy has in most ways started out very well. The administration has taken a strong line against the revival of protectionism, which, as history has taught us, would otherwise pose a threat to recovery from the financial crisis. Policymakers have worked with Congress to ease public anxieties through a major expansion of Trade Adjustment Assistance (TAA), and the White House has embraced an ambitious Strategic and Economic Dialogue with China on macroeconomics, climate change and security policy. Focus is now turning toward legislation that would upgrade the Food and Drug Administration's (FDA) inspection systems.

Trade liberalization has been slower to show progress. This reflects the fact that the trade agenda Obama inherited contributes much less than trade policy could to his new administration's main economic and foreign policy goals.

Over the next year, the administration needs first to clear the decks, and then shift the trade agenda to one that directly supports its top objectives: recovery from crisis, improved relations with the world generally and Muslim states in particular, and developing new, high-tech sources for America's future growth, innovation and high-wage employment. As the Obama administration works to pull the nation out of its economic crisis, trade policy should accordingly work to spur growth by promoting innovative new industries and clean technologies at home, and by supporting the globe's poorest citizens and reconciliation with the Muslim world.

Today's agenda has three big problems:

Archaic Tariffs: First, the U.S. trade regime contains archaic tariffs that fail to protect jobs, but are very effective at obstructing growth and job creation in poor countries and large majority-Muslim states. In so doing, the incumbent tariff regime conflicts with America's development and security goals. To date, the administration has not proposed any major overhaul.

Stalled Free Trade Agreements: Second, the Free Trade Agreement (FTA) program that has dominated trade debate for the last decade is delivering only modest results for the U.S. and poor results for our partners, while creating intense discord. The FTA program's effectiveness seems to be waning anyway, as companies value the flexibility of global supply chains more than the tariff benefits they receive through compliance with FTA rules of origin.

The Doha Hurdle: Third, the intense focus on agriculture in the Doha Round of the World Trade Organization (WTO), though a good idea in its own right, has not led to multilateral trade progress on farm trade reform, but has nevertheless blocked potential progress on larger industrial sectors.

The administration and its chief trade negotiator, U.S. Trade Representative Ron Kirk, face

a daunting challenge in clearing the decks of the agenda they inherited. Over the next year, Kirk should work to pass the remaining three free trade agreements (with Panama, Korea and Colombia) and then shelve efforts to promote additional FTAs for the time being. Meanwhile negotiators should make a major effort to conclude the Doha Round.

Once the decks are cleared, the administration should center trade policy on a new agenda that does more for American economic and national security. This new agenda would include:

Tariff Reform: Providing broad tariff waivers for the low-income countries and large majority-Muslim states now excluded from the FTA network and other, more ambitious preference programs.

Broad, Sectoral Agreements: Concluding WTO “sectoral” agreements among the world’s major economies (though not necessarily all WTO members) covering goods and services in the big new industries likely to be the sources of growth, innovation and job creation for the United States in the next decade, including information and media industries, health technology and services, clean energy and environmental technologies.

Regional Initiatives: Promoting regional initiatives with Europe and Asia, which should be focused not on existing disputes or regulatory issues, but on issues likely to emerge in the next decade: the treatment of nanotechnology, biotechnology, privacy and other technologically driven issues. Additionally, or alternatively, the Obama administration should work to rationalize the existing fragmented FTA networks in Latin America and the Pacific.

INTRODUCTION

As the sixteenth United States Trade Representative, Ambassador Ron Kirk inherits more than he might want. As he took office, his in-box included three signed but unratified Free Trade Agreements with Korea, Panama and Colombia; anxiety over Chinese import competition; and a spate of arguments with Canada over wood, Mexico over trucks, and Europe over beef and planes. Beyond this lies a much larger worldwide trade negotiation—the World Trade Organization’s Doha Round—already four years past its deadline. In the backdrop looms the sharpest plunge in America’s imports and exports since 1931, and a emotional four-decade split over trade in the progressive coalition.

Taken as a whole, the trade agenda looks dauntingly large and brutally complicated. One sympathizes with Kirk, as he tells his first audience:

“It’s time for a trade policy that makes sense to the American people.”

Far from boilerplate, the comment is a perceptive insight about the contrast between the trade agenda America has and the trade agenda it needs. In a year of crisis, the United States cannot afford lapses into reflexive anti-trade sentiment, protectionism, and market closure. This would threaten employment and recovery at home and around the world. And to prevent such an event, as well as to serve longer-term economic and security goals, America needs an ambitious and principled trade program. Today’s agenda is not enough. In some ways it does too much, focusing on small partners and requiring many Congressional votes on agreements whose return will be modest. In other ways it does too little, whether for America’s hopes for growth, innovation and job creation or for the Obama administration’s main foreign policy goals.

Economic: More able to help America restore growth, create high-wage jobs, and strengthen its economic leadership, through targeted agreements in energy and environmental industries, medical technology and health, and information and media.

Foreign Policy: More able to support the president's hopes to ease poverty in the world's poorest countries, and help the Muslim world to "develop the economy and bring hope to places plagued by violence," by scrapping tariffs on goods from poverty-stricken and vulnerable countries.

DEFINING GOALS

Kirk's call for "a policy that makes sense" is the right place to start.

Like other Cabinet officers, U.S. Trade Representatives should be able to explain their agendas briefly and convincingly. A few paragraphs should be enough to list the administration's main goals and note the trade items meant to help achieve them. An attentive listener can then leave understanding why trade policy is important and why it is worth the work.

The basis for Ambassador Kirk's agenda, therefore, should comprise the big national challenges the Obama administration took on in January, and the major goals the president has set out. Five are particularly relevant to trade policy:

- Bring America safely out of the financial crisis;
- Rebuild America's international image as a guarantor of international law and alliance leader, damaged first by the Bush administration's abrogation of the Kyoto Convention and Chemical Weapons Convention in its first year, then hammered worldwide by the Iraq war;
- Heal a troubled relationship with the Muslim world, corroded by terrorism, the Arab-Israeli conflict, the Iraq war, and the broad decay of economics and politics in the Middle East and parts of Muslim South Asia;
- Ease life in the poorest countries, consistent with the observation in the president's Inaugural address that "nations like ours that enjoy relative plenty ... can no longer afford indifference to suffering outside our borders;"
- Restore America's long-term economic health, again using the president's phrasing, with a recovery built "not on sand but upon rock," through science, education and environmental policies designed to create high-wage jobs, support innovative new industries, and provide greater personal security for the public.

Some of the administration's early trade policies apply quite naturally to these goals. Its primary economic goal has been to prevent this year's financial crisis from evolving into a global 1930s-style calamity. Thus early on, the administration insisted on preventing closures of markets and compliance with America's trade obligations, especially in the controversy over the February stimulus bill's "buy-American" clause. More recently the president has warned against making climate change legislation a vehicle for closing markets worldwide. Both steps have helped preserve economic stability and facilitate recovery by keeping markets open, and in the process have also helped to restore America's image as a guarantor rather than a disruptor of international law and agreements.

Accompanying this commitment to an open world market, the administration has also laid the foundations for a productive China policy by launching the Strategic and Economic Dialogue, mesh-

ing trade policy with macroeconomic management, climate change and national security. And it has begun to ease globalization anxieties, working with Congress to improve Trade Adjustment Assistance and now reforming the FDA's health and safety inspection programs for the world of the global supply chain. All these policies mesh easily and clearly with the administration's main goals. In pursuing them, the administration has been decisive and willing to take bold steps in the face of opposition.

Meanwhile, Ambassador Kirk and his colleagues have found two unexpected bits of help. One is rising public support. This spring's surveys by the Pew Center, The New York Times and Gallup all show public support for trade agreements, and trade per se, up sharply in 2009, returning to the long-term levels after a steep drop in 2007 and 2008. The other is a sharp decline in America's trade and current-account imbalances, from 6 percent of GDP in 2006 to 5 percent in 2008 and a likely 2.3 percent in 2009—erasing all the increase in these deficits since 1998—as imports plunge and Americans begin saving again.

But even with the strong start and the improving public mood, the administration has made less progress in opening new markets. In turning to the three free-trade agreements, it has looked tentative and perhaps internally divided—most prominently in backing away from promised early action on the agreement with Panama last June.

Why the contrast between strong opposition to protectionism on one hand, and anxiety over relatively small agreements on the other? The uncertainty at its root reflects the inadequacy of the trade agenda Kirk inherits. It does less than trade policy should to support the administration's growth and employment goals, and also less than it should to advance America's national security. If trade policy is to contribute to the administration's program, therefore, Ambassador Kirk needs something new.

CURRENT AGENDA: MISSING THE MAIN ISSUES

More precisely, Kirk needs to reshape policy in three areas. First, America's own trade regime has features that conflict with the Administration's hopes to ease the nation's estrangement from the Muslim world and to help the poorest countries. Second, the free-trade agreement program offers only modest economic benefit at high political cost, covering too little trade to fulfill any realistic hope of re-establishing American prosperity and economic strength. And third, the Doha Round has floundered because it has allowed hard issues of lesser importance to block action on bigger and perhaps easier topics.

THE U.S. TRADE REGIME: ESPECIALLY TOUGH ON THE MUSLIM WORLD?

The first problem is with America's own tariff system. Most people assume this system closely reflects the standard economics-course debate over trade policy. In the simplified academic model, tariffs provide some insulation against competition, while to some extent degrading overall economic efficiency and lowering living-standards. But the real world tariff system is not much like this. Most of America's imports come in duty-free or with very low tariffs, meaning tariffs do little to degrade efficiency. The high tariffs cluster in a few areas where jobs have mostly vanished, and act not as job protectors but as ways to depress imports from many of the poorest countries and most big Muslim states.

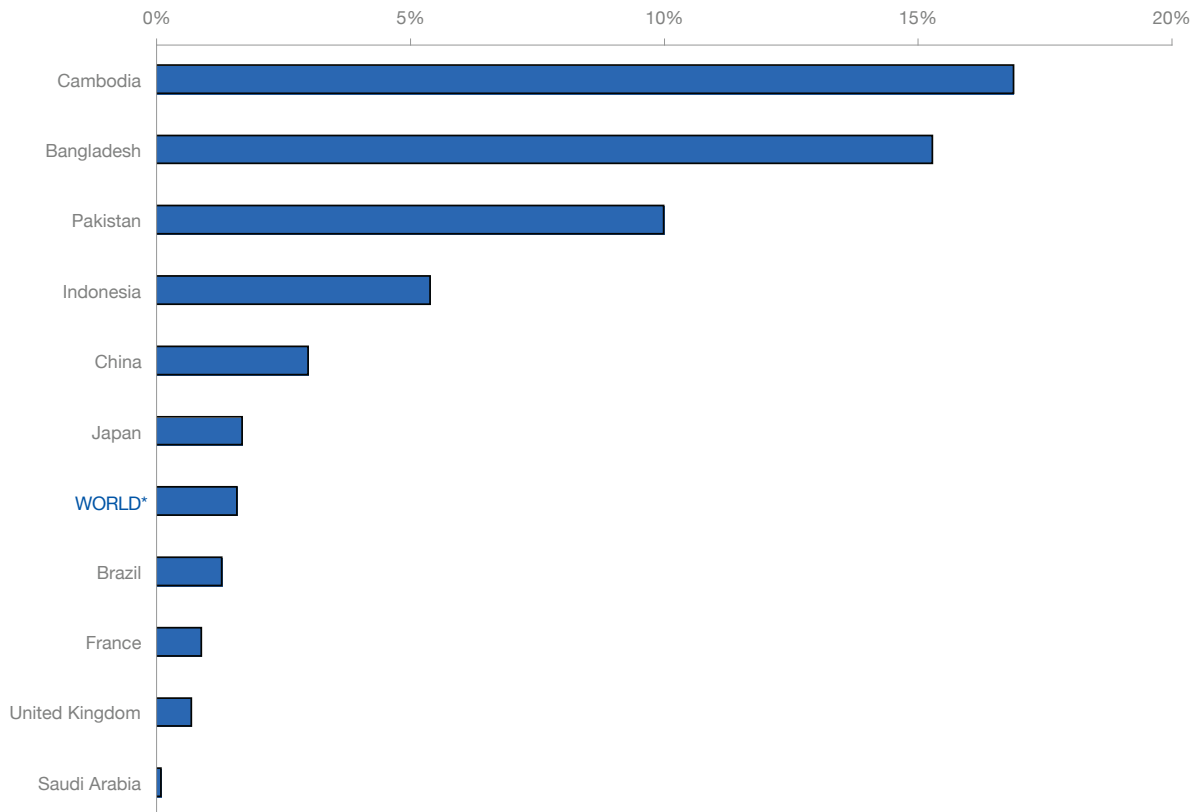
As Table 1 shows, the tariff system mainly affects clothes, shoes, luggage and household linens. These light-industry products account for about 5 percent of imports. But with tariff rates 16 times higher than those imposed on other goods, they raise about half of all tariff revenue.

TABLE 1: U.S. TARIFF SYSTEM IN BRIEF

PRODUCTS		2008 IMPORTS*	TARIFF PENALTY	AVERAGE RATE
ALL GOODS		\$1.62 trillion	\$25.7 billion	1.6%
HIGH-TARIFF GOODS	FOUR LIGHT-INDUSTRY GOODS	\$96.6 billion	\$12.6	13%
	CLOTHES	\$63.6	\$9.2	14.5%
	LEATHER/LUGGAGE	\$7.6	\$1	13.2%
	SHOES	\$19	\$1.9	10%
	HOUSEHOLD LINENS	\$6	\$.49	8.2%
EVERYTHING ELSE		\$1.53 trillion	\$13.1 billion	0.8%

* Excluding \$380 billion in goods imported under FTAs and tariff waivers. Source: International Trade Commission.

TABLE 2: AVERAGE U.S. TARIFF RATES FOR THE WORLD AND 10 SELECTED PARTNERS, 2008



* Average tariff on nations with which the U.S. has "Normal Trade Relations," excluding imports under FTAs and preferences.

Most of the light-industry tariffs are very old policies, created in the 1920s as protective policies for the big employers of the Jazz Age. Eighty years later, few Americans now work in these industries, and the products covered by the tariffs are mostly made in poor countries. The clothing, shoe and home linen industries, in particular, peaked as employers in the 1940s at about 2.2 million, fell to 1.4 million by 1970, and have since declined to about 0.2 million. Many of America's highest tariff rates now apply to products no longer made in the United States at all.

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Thus the light-industry tariffs have lost their relevance to employment, and now act mainly as ways to depress trade with the countries most reliant on making clothes and shoes. Table 2 shows that these are a series of poor countries, mostly in Asia and the Muslim world.

The Obama administration inherits no plan to change this pattern. Without such a plan, its foreign-policy and security officials are working to boost aid to Pakistan by \$1.5 billion a year to help develop the economy and create jobs. They may well be unaware that meanwhile, the tariff system imposes a \$360 million annual penalty on the products that are actually developing the Pakistani economy and putting Pakistani men and women to work. Bad enough in ordinary times, this contradiction is especially troubling as America's trade with the Muslim world goes into free fall.

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This year, America's imports from the world's 56 Muslim states have fallen by half. From their oil-boasted peak at \$26 billion in July 2008 to March's \$9 billion, the figure has dropped by two-thirds. Not only has oil wealth evaporated, but American purchases of Muslim-world farm goods and manufactured goods—the sort of trade which does most to bring money to impoverished rural Turkey and Morocco, or to create urban jobs in Karachi and Beirut—is falling faster than imports of the same goods from other regions. As the trade figures drop, countries whose economies depend on selling light goods to Americans in malls and grocery stores lose thousands of high-paying jobs a month. America's trade regime is making it harder, not easier, for them to stop the slide.

THE FREE TRADE AGREEMENT PROGRAM: SMALL-SCALE, DIVISIVE, AND INEFFECTIVE?

The Bush administration chose not to reform American tariff policy. Apart from an increase in farm subsidies and the abolition of textile quotas, the American trade regime has been largely static. But America's trade policymakers have kept busy anyway, focusing their energy on the negotiation of free-trade relationships with 14 countries. In the summer of 2000, the U.S. had three FTA partners—Israel, Canada and Mexico. Now we have seventeen, with the Clinton administration concluding an agreement with Jordan in the autumn of 2000, and the Bush administration then adding thirteen more.¹

Taking up eight of the last 10 Congressional votes on trade, the FTA series has been exception-

ally controversial. Businesses and diplomats usually supported the agreements as export promoters and foreign policy tools. Academic economists—in particular Dr. Jagdish Bhagwati of Columbia, who famously compared an FTA-based system to a “spaghetti bowl” of contradictory rules and different tariff levels—criticized them as likely to divert and distort trade. Unions and populist politicians attacked the FTAs as unbearable sources of competition; development NGOs usually opposed them as too tough on poor-country partners. But except for the NGOs, most of the participants in the debate missed the main point: The FTA series has covered only a small slice of America’s trade, and has therefore had only small effects.

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About two-thirds of American trade is with five big partners: the European Union, Canada, China, Mexico and Japan. NAFTA already covers Canada and Mexico, and neither the EU, China nor Japan appears on the FTA list. Nor does the U.S. plan any FTAs with America’s fastest-growing trade partners—big developing countries like India and Brazil.

Within their limits, the agreements do seem to have helped boost exports to America’s partners. But the entire series covered only eight percent of America’s exports, and five percent of imports. Because of this small scale, their results have been at best modest. Thus the economic potential of trade policy has shrunk, even as frequent congressional votes aroused more political controversy.

TABLE 3: FTA’S COVER ONLY A SMALL SHARE OF TRADE

US EXPORTS*		2000	2004	2008	CHANGE '00-'08	GROWTH RATE
WORLD		\$712 billion	\$727 billion	\$1170 billion	\$558 billion	64%
NTR**	ALL	\$403	\$408	\$714	\$311	77%
	EUROPEAN UNION	\$156	\$156	\$251	\$95	61%
	CHINA	\$15	\$33	\$67	\$52	347%
	JAPAN	\$61	\$51	\$61	\$0	0%
	BRAZIL	\$14	\$12	\$29	\$15	107%
	INDIA	\$3	\$5	\$17	\$14	470%
FTA PARTNERS	ALL	\$303	\$309	\$446	\$143	47%
	CANADA/MEXICO	\$256	\$256	\$354	\$98	38%
	14 BUSH FTAs	\$47	\$53	\$92	\$45	96%

* Merchandise only. Source: ITC. ** Nations with whom the United States maintains “Normal Trade Relations.”

Moreover, as time passes these agreements seem to be growing less effective rather than more so. Despite the special access to markets the FTAs create, the partners' share of American trade is falling rather than rising. In 2000, our three FTA partners bought 43 percent of America's exports, and supplied 43 percent of imports. Today we have 17 partners. But they buy only 39 percent of America's exports. Their share of imports has fallen even faster, from 43 percent to 37 percent. Nor is this only because of stable trade levels with Canada and Mexico—America's fourteen new partners provided 4.3 percent of America's imports in 2000 without the FTAs, and now ship only 3.7 percent.

In 2000, our three FTA partners bought 43 percent of America's exports ... Today, we have 17 partners. But they buy only 39 percent of America's exports.

These import trends provide especially enlightening detail. The International Trade Commission (ITC) publishes data on how much of our imports from partner countries actually arrive under the agreements. The ITC's data show a surprising fact: The FTAs' share of America's imports declined across the decade even as the number of FTA partners rose.

One explanation for this is that many of our FTA partners already had duty-free access to the United States through preference programs like the Caribbean Basin Initiative and GSP. In these cases the agreements left them no better off than they were before.

A second point is that much of American trade is already duty-free, and in these cases the FTAs are barely relevant. About 40 percent of American imports, including metals, semiconductor chips, natural gas, coffee, scientific instruments, pharmaceuticals, toys and much else, have no tariffs at all. Importers of these goods ignore FTAs. Only about half of America's imports from Mexico and Canada actually use NAFTA, only 40 percent of imports from Australia use the US-Australia FTA, and barely a tenth of our imports from high-tech Israel and Singapore come in under their respective agreements.²

As supply chains save more money, the duty-free privilege FTAs confer grows less attractive.

Nor is this the only factor at work. At a deep level, preferential tariff policies seem to be weakening, as businesses choose supply chains over the "rules of origin" free-trade agreements use to define what it means for a television set to be "from Mexico," or a shirt to be "from El Salvador." The steady advance of shipping, air cargo, and communications technologies allows businesses to develop elaborate and flexible supply chains that use inputs from multiple, shifting sources. Each year, they become a bit more efficient, and squeeze a bit more cost out of the final product. Asia's massive investment in trade infrastructure—ports, telecom systems, roads, air cargo terminals—has been especially effective in this regard. Compliance with FTAs, on the other hand, often requires buyers to give up some of the flexibility of their supply chains by guaranteeing that (for example) 35 percent of the value of a Mexican-made television comes from Mexican and American inputs and labor. And a tariff can only be eliminated once. And so as supply chains save more money, the duty-free privilege FTAs confer grows less attractive.

In a mercantilist sense, the FTAs' have not been bad for the United States. They seem effective as ways to promote American exports to the partners, but ineffective as ways to promote imports. (Perhaps America's goods—planes, scientific equipment, satellites, wheat, medicine—meet rules of origin more easily, since American production adds so much intellectual-property value.) The services and intellectual property provisions of the FTAs are also effective as vehicles for American commercial interests. If international trade follows the domestic economy in shifting decisively toward services, their value may grow. But taken as a whole, the FTAs' results have been modest, and may well diminish as time passes.

At the same time, the FTAs are especially divisive for the progressive coalition, and the Obama administration's attempts to bridge this gap may not yield much. The surface divide over the past fifteen years has been over the agreements' labor and environmental content. But this seems not to be the fundamental issue. Though the free-trade agreements—especially the most recent four—have been reshaped to include more ambitious labor and environmental chapters, the effort has not brought consensus.

With the FTAs modest in scale from the start and now fading under the impact of structural change in technology and logistics, it is time to remove them from the starring role.

In May of 2007, House Democrats led by Representatives Charles Rangel and Sander Levin, guided by priorities expressed by the American labor movement and NGOs, revised the four then-pending FTAs with Colombia, Korea, Panama and Peru. The new versions included commitment to the ILO's core labor standards—the principal trade union demand from 1993 to 2007—plus compliance with multilateral environmental agreements, and enforcement of existing laws in both areas when international standards are not yet clear. For good measure they also scaled back patent provisions for pharmaceuticals.

But unions and “populist” politicians did not support—and often outright opposed—the agreement with Peru. They now oppose the three remaining agreements as well, despite the labor and environmental provisions. Their opposition to the Panama agreement in particular suggests the main question is not really about environmental and labor policy, but rather a more basic alarm over competition from poor countries. The comment of Sen. Bernie Sanders (I-VT), arguing in 2007 that approving the US-Peru FTA would force Americans into a competition with “people who earn 91 cents an hour,”³ illustrates the point. It is economically simplistic—America's advantages in capital, education, labor productivity, science, infrastructure and economies of scale more than make up for any “advantage” created by poverty—but emotionally powerful. For those who hold it, there is little that any poor country can do, whether on labor and environmental reform or other matters, to qualify as a suitable partner for America.

An internationalist administration must be willing to face down such opposition, even from friends, to serve the national interest in economic growth, job creation and alliance-building. But with trade only one of many issues on its agenda, the administration has a pragmatic interest in limiting these conflicts to genuinely important topics. And so, with the FTAs modest in scale from the start and now fading under the impact of structural change in technology and logistics, it is time to remove them from the starring role.

DOHA AND ITS DIFFICULTIES

The last big inherited agenda item, the Doha Round of negotiations within the WTO, poses different questions. It does not have the perverse effects of light-industry tariffs on poor-country and Muslim-world goods—in fact a Doha agreement would help to cure the problem. Nor, depending of course on the terms of a final agreement, should it be too small to have a decisive impact. The WTO includes all the world’s big economies except Russia, so its agreements cover America’s big trading partners. And as WTO tariff cuts apply equally to all countries, they will not force businesses to choose between tariff advantages and supply-chain flexibility.

WTO agreements are therefore preferable to FTAs on many grounds. And during the 1990s, for all these reasons, WTO agreements made a significant contribution to America’s economic boom. These included the Uruguay Round in 1994, and four “sectoral” agreements between 1996 and 1998 which first eliminated information technology tariffs, then liberalized several services and industries, and finally imposed a moratorium on tariffs on Internet transmissions.

The administration should not allow agricultural deadlock to perpetually delay agreements in other areas of American comparative advantage.

Ten years later, a Doha Round done right would be a genuinely large initiative and would make a direct contribution to the administration’s aspirations for job creation, innovation and growth. But Doha has been slow. Four years past its original deadline, it will soon surpass the Uruguay Round as the longest international trade negotiation ever, and a successful conclusion is still uncertain.

This is because Doha has made the hardest issues central to success on any part of its agenda. Doha is a “single undertaking” in which all parts of the agreement must be settled before any are implemented. This means success in agriculture is a precondition for action on any other topic. But farm reform is the most difficult of trade issues. The European Union, Switzerland, Japan, Korea and other countries have powerful emotional and cultural attachment to farm production, and strong political incentive to avoid the issue. China and India fear disruption in their very large rural populations; India, for example, counts 700 million farmers—more people than live in all European countries combined. Eight years of negotiation have accordingly produced no agricultural agreement. Thus in these years the WTO has been unable to open any markets for America’s main employers and growth industries, and likewise has been unable to begin addressing the new issues arising from nanotechnology, biotechnology, internet-based services and other emerging high-tech industries.

Agriculture’s claim to priority is strong. Farming is an essential, highly competitive part of the American economy, and farm products face more foreign tariffs and subsidies than any other category of goods. Were agriculture America’s leading export sector, or likely to be among the United States’ main sources of growth in coming decades, the right counsel would be patience and perseverance. But agriculture accounts for a shrinking fraction of American exports, and a small share of the domestic economy. Moreover, an ambitious WTO agricultural

TABLE 3: U.S. EXPORTS BY PRODUCT, 2008

TOTAL GOODS/SERVICES	\$1.8 trillion
MANUFACTURING	\$998 billion
COMMERCIAL SERVICES	\$349 billion
AGRICULTURE/FISHERIES	\$66 billion

agreement has been difficult not only because foreigners are determined to keep subsidies and closed markets, but because some American farm groups want to preserve sugar quotas, ethanol tariffs and cotton subsidies. So agriculture's claim to priority cannot be absolute.

TOWARD A NEW AGENDA

In sum, Doha does "make sense," in a way a prolonged FTA series does not. The administration has good reasons to conclude it, and should make the effort. But the administration should not allow agricultural deadlock to perpetually delay agreements in other areas of American comparative advantage.

- Trade policy should help to promote national security goals rather than conflicting with them.
- Trade policy should make a major contribution to America's growth, high-wage job creation and economic leadership.

These principles identify the problems trade policy should solve. The inherited agenda features an FTA series that is unlikely to help the administration meet its economic policy goals and a deadlocked WTO round. The first should be wrapped up expeditiously and then placed on hold; the second should be finished soon or replaced with something more feasible.

Ambassador Kirk cannot instantly change the agenda he inherited. An abrupt and unilateral decision to drop the three pending FTAs, to say nothing of the Doha Round, would shock important alliances, much as the Bush administration's repudiation of the Kyoto Protocol and the Chemical Weapons Convention did in 2001. This shock would be all the greater since the president has met with the three presidents of Korea, Panama and Colombia and agreed with them that the agreements should move forward. And simply scrapping them would be a mistake anyway. Though they have limits, this decade's FTAs have the virtue of being good export promoters, and the United States badly needs some quick new export promotion during this economic crisis.

The inherited agenda features an FTA series that is unlikely to help the administration meet its economic policy goals and a deadlocked WTO round.

In these circumstances, the right approach is a four-part agenda, in which a crowded and difficult first year would give way to fewer but larger initiatives chosen for direct contribution to the administration's main foreign policy and economic goals. It would run along the following lines.

(1) Clear the Decks.

Pass the remaining FTAs with Panama, Korea and Colombia. These represent commitments made to important allies, whose governments have taken risks to conclude the agreements and which should not be simply repudiated. Within the limits of FTAs, they can bring quick benefits to American exporters at a time when exporters badly need help. The administration should ensure their passage. But, in so doing, it should make clear that the three mark the end of the FTA series for the time being.

(2) Restore the Link to Security.

Match America's trade regime to America's security needs and liberal values. In practical terms

this means dropping tariffs on goods from very poor countries and the large Muslim states now excluded from the main existing tariff-waiver programs. There is no good excuse for a trade regime which treats poor countries like Cambodia and Bangladesh more harshly than it treats rich countries like France and Japan. Still less can there be a good reason to impose tariff penalties of hundreds of millions of dollars a year on goods from Pakistan, deterring job creation and growth in places like Karachi and Lahore, just as the administration asks for billions of dollars in aid for Pakistan meant precisely to help create those jobs and that growth.

To fix the problem, the administration should ask Congress for a broad long-term waiver of tariffs for low-income countries and large majority-Muslim states, with simple rules of origin that make it easy for them to succeed and create jobs. The logical place for this is as part of the revision of America's "preference" programs for poor countries. This is a concept already endorsed by the administration earlier this year, and should also mean help for Africa, the Caribbean islands and other vulnerable countries.

(3) Reconnect Trade Policy to Major Economic Goals.

Place the industries that are key to growth, job creation and economic leadership at the center rather than the periphery of trade policy. This should apply both at the WTO and in regional initiatives in Asia, Europe and Latin America.

There is no good excuse for a trade regime which treats poor countries like Cambodia and Bangladesh more harshly than it treats rich countries like France and Japan.

The first step in this would be a final effort to conclude the Doha Round within a year. If conclusion within a year is not possible, then Doha should be broken into component parts, with some concluded quickly and others set on a more gradual but still expedited time-frame. Those issues designated for quick action would include many of the Round's second-tier but important issues, including cotton-subsidy reform, trade facilitation, fishery-subsidy reform, and permanent duty- and quota-free treatment of all goods from the poorest countries. Another year should be enough to conclude sectoral negotiations in the large industry clusters most important to future growth, employment and innovation, modeled on the agreements of the mid-1990s and including at minimum:

- Energy and environmental industries, including the abolition of tariffs and non-tariff barriers to environmentally friendly goods; services liberalization; and the abolition of environmentally damaging subsidies, including those contributing to over-fishing, unsustainable logging, and use of carbon-based fuels rather than other forms of energy.
- Health and medical technologies including telemedicine, advanced medical equipment, pharmaceutical tariffs and so on.
- Information and media, including information technologies not included in the existing Information Technology Agreement, audiovisual equipment, news, entertainment and new information-based services like GPS.

These would not need to include all WTO members. Rather, as with the Information Technology Agreement, the Basic Telecommunications Agreement and the Financial Services Agreement of the 1990s, they would cover the world's major economies—the developed countries of Europe and Asia, China, India, Brazil, South Africa, the biggest ASEAN and Latin American countries, and so on. Others

could join over time, or stay out entirely in the case of poorer and smaller economies.

(4) The High-Tech Future.

Finally, the administration should move the United States' regional dialogues with Asia and Europe away from unproductive focuses on bilateral disputes and deregulation to the issues of the future. Here there are several options which it should explore with its partners.

One approach could be regional, based on agreements linking larger associations of countries. This could include the Trans-Pacific Partnership, which would create an open Asia-Pacific agreement including, at the beginning, the United States, Australia, New Zealand, Chile, Singapore and perhaps Vietnam and Japan; a services-trade agreement with Europe, and a rationalization of the United States four free-trade agreements in the Western Hemisphere (or six, when those with Colombia and Panama pass) to create common rules, encourage regional integration, and develop a strong and uniform set of labor and environmental rules.

Another option would be to focus on developed countries and new issues. Here the administration could agree with Europe, Japan and other wealthy and technologically advanced partners to leave existing disputes and agreements to WTO resolution, and focus instead on the issues that, as they emerge from new technologies, are likely to pose the most difficult challenges in the next decade. These could include in particular regulatory cooperation on new technologies and emerging industries, such as nanotechnology, new Internet-based services industries, future biotechnology issues and so on.

CONCLUSION

The agenda laid out above would not only shift tactics, but would refocus the nation on basic goals. Dropping this decade's pattern of frequent votes on relatively small issues, the administration would concentrate on fewer issues, but more significant ones.

A new trade agenda would tie the Obama administration's trade negotiations and bills directly to some of its largest goals—growth and job creation based on clean energy, leadership in innovation, reconciliation with the Muslim world, help for the world's poor.

Neither a shift of tactics nor a better substantive agenda, of course, will make trade policy easy. Division among Democrats over the global economy has endured despite many attempts at consensus, in Congress and within administrations, over the past 40 years. It is likely to be with us for some time to come. But division in the pursuit of genuinely major national objectives is something a visionary administration will accept and overcome.

A new trade agenda would tie the Obama administration's trade negotiations and bills directly to some of its largest goals—growth and job creation based on clean energy, leadership in innovation, reconciliation with the Muslim world, and help for the world's poor. Combined with the dialogue the administration has already established with China, and its defense of open markets, this would be a trade agenda of consequence, helping Americans enter the next decade safer, more prosperous, and stronger than they are today.

A trade policy that can help the administration achieve these goals is one is worth some political investment, and will both deserve and win the support of the public. To move forward on it, borrowing Kirk's phrase, simply makes sense.

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END NOTES

¹ In chronological order, they are the ratified agreements with Israel, Canada, Mexico, Jordan, Chile, Singapore, Australia, Morocco, Oman, Bahrain, CAFTA – including Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic – and Peru, plus the unratified agreements with Panama, Korea and Colombia.

² E.g. copper makes up about a third of America's imports from Chile, and has accounted for \$2.3 of the \$2.6 billion in import growth since implementation of the US-Chile Free Trade Agreement in 2002. But the U.S. applies no tariff or other trade barrier to copper, and no copper-buyer has bothered to register their imports under the agreement. They simply proceed as they did before the agreement, and the import growth reflects higher demand and higher prices rather than anything to do with the FTA. This is not an unusual case. In general most high-tech goods and natural resources are duty-free. Buyers of such duty-free products as natural gas from Canada, semiconductor chips from Singapore, coffee from Nicaragua or airplane parts from Australia are not using the FTAs.

³ Remarks of Sen. Bernie Sanders, in opposition to US-Peru Trade Promotion Agreement, *Congressional Record*, December 3, 2007.